GUERNSEY POST

addressing the issues

We are pleased to announce that, despite having to deal with some very significant issues and difficult trading conditions, Guernsey Post has again met all of its service targets and delivered a profit for the people of the Bailiwick..........

Corporate details

Directors:
Dudley R Jehan (Chairman)
Gordon R Steele (Chief Executive)
Boley Smillie (Executive)
Richard J Hemans (Finance)
Andrew Duquemin (Non-Executive)
Steve Hannon (Non-Executive)
Jeff Kitts (Non-Executive)
Dame Mary Perkins (Non-Executive)

Auditors:
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Chartered Accountants
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Greffe Registration Number: 38693

Contents

GUERNSEY POST

Dudley Jehan

Chairman's Statement

Guernsey Post has again met all of its service targets and delivered a profit for the people of the Bailiwick

I am pleased to report that, despite having to deal with some very significant issues and difficult trading conditions, Guernsey Post has again met all of its service targets and delivered a profit for the people of the Bailiwick.

Company Performance

Underlying profit for the year was stable at £1.2m but exceptional write-offs for the year to cover higher pension provisions and the prudent decision to write off all the investment in development costs for the new financial service savings products in this year, reduced the profit to £0.162m. However, Guernsey Post will pay a dividend on the operating profit before these exceptional items, ensuring that, through the States, the people of Guernsey will receive the full benefit.

Company Strategy

We have had to adapt our strategy to take into account significant issues that have arisen throughout the year. These include the fall in southbound mail from the UK and big cost increases from Royal Mail. In addition, we have been frustrated in our efforts to launch a range of savings products and have felt the effects of excessive and unsatisfactory decisions by the Office of Utility Regulation.

We are attempting to compensate for these issues through increased efficiencies, cost reductions and the continued pursuit of alternative revenue streams from non-regulated postal products and diversification into new, profitable markets where we have the relevant reputation, expertise and infrastructure.

We shall continue to seek a solution which will enable us to launch a range of savings products to satisfy the clear demand from the people of the Bailiwick of Guernsey.

Dealing with the Office of Utility Regulation has been difficult and costly, diverting a great deal of management time and incurring levels of costs that are disproportionate to the size of the business. In our opinion, the regulatory processes, the quality of its analysis, the approach and conclusions must meet the highest standards. The impact of the Regulator's most recent decision was so great that we had no choice but to appeal the decision at the Royal Court. We will continue to press for a more proportionate regulatory approach for Guernsey.

There can be no doubt that the next few years are going to be some of the most challenging for all at Guernsey Post. I am confident that we have the right strategy and the full commitment and backing of our Board and our stakeholders to succeed.

continued

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The Board

During 2010, the company welcomed Boley Smillie to the Board. Boley has been with Guernsey Post for 19 years starting with us straight from secondary school. He was appointed Operations Director in 2007 and Executive Operations Director in April 2010.

The role of the Board is to provide leadership within a prudent and effective framework of risk and internal control. Each month we review the effectiveness of the previous month's initiatives.

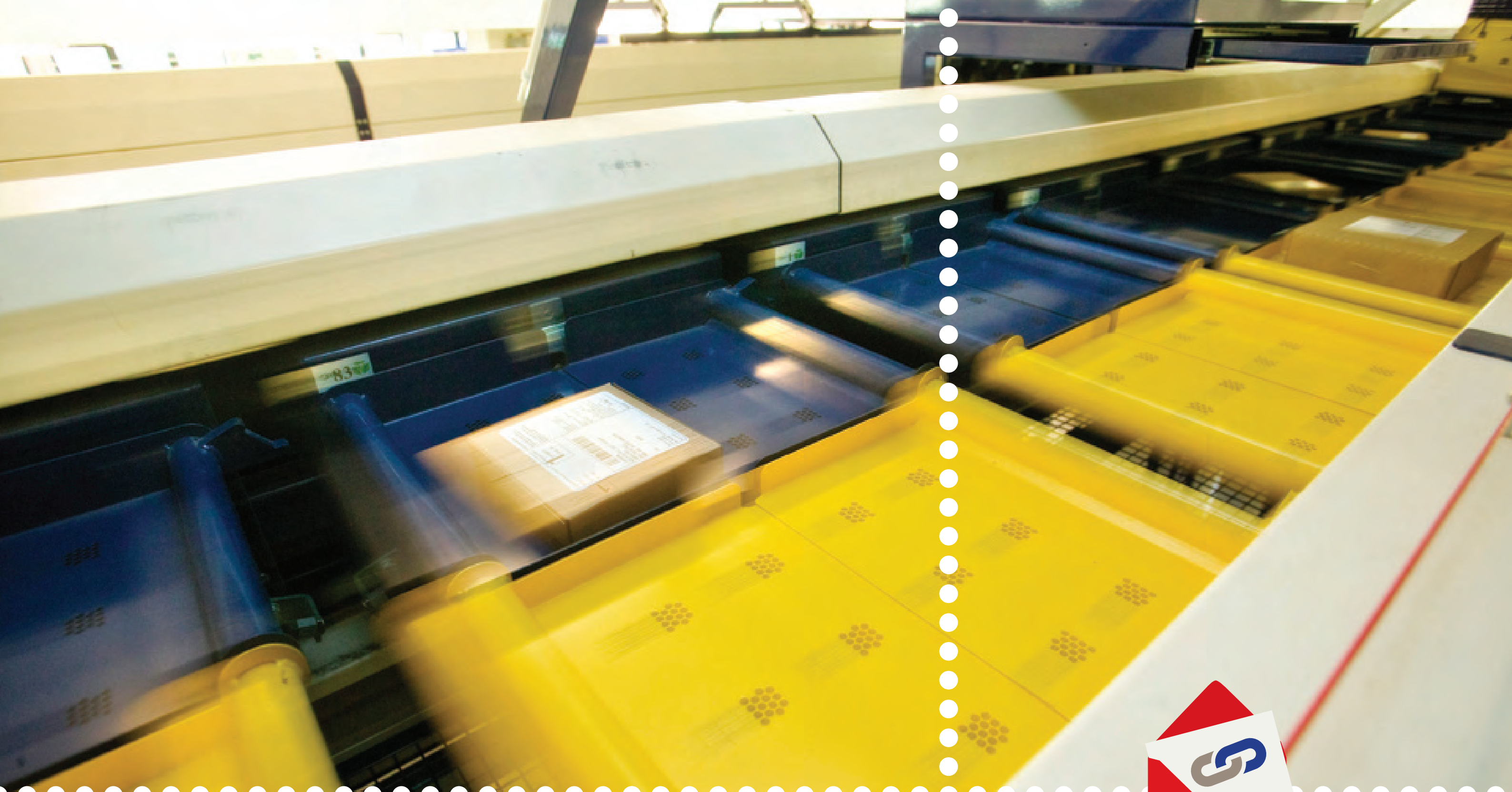
Our sub-committees were kept busy and the Audit Committee and the Board approved a revised risk management policy and strategy. This policy outlines our risk management principles and defines our procedures, reporting mechanisms and risk appetite.

Throughout the year, there has been an increased focus on risk management with a detailed assessment of high impact risks. Additionally, quarterly reviews of our activities relating to health and safety, anti-money laundering and countering the finance of terrorism have been completed.

The Nominations Committee has developed a new process for the appointment of Non-Executive Directors to ensure that we comply with best practice. It conducted a review of the Board's skills and experience and concluded that the levels were satisfactory. The Committee also directed the development and delivery of a corporate governance training course for the Board to ensure that it was informed of the latest developments and was refreshed on the key principles.

Finally, I would like to take this opportunity to thank my fellow Directors, management and all colleagues for their efforts and dedication throughout the year.

Dudley Jehan Chairman
July 2010



Commonwealth Conference of Postal Authorities (CCPA)

We are proud to continue our chairmanship of the Commonwealth Conference of Postal Authorities, which represents 66 of the world's smaller postal authorities.

The CCPA's main role is to consider international postal rules and regulations set by the Universal Postal Union (UPU), the primary forum for cooperation between postal administrations.

Individually the smaller administrations have difficulty being heard on the international stage.

The CCPA's valuable work allows access to expertise across it's members, in addition to a collective voice when responding and voting on issues raised by the UPU.

For Guernsey Post, our chairmanship of this group provides heightened international profile, allowing us to punch above our weight on the global postal stage.

This year has been one of the most challenging in the history of Guernsey Post and the business has had to address some very significant issues

The fundamental structural changes in the worldwide postal market have really become evident this year, with a sharp decline in mail to the Bailiwick, reflecting economic conditions and the continuing trend towards the use of electronic communications. This trend in the decline of the traditional postal market is set to continue.

There has been a big change in our commercial relationship with Royal Mail. Their charges to us rose significantly this year and we expect them to be an even more demanding partner in the future, reflecting the commercial pressures on their organisation.

Of very great significance both this year and in the coming years, is the change in the regulatory environment. In our opinion, the Regulator's actions and approach this year fell short of the minimum standards we are entitled to expect and have the potential to damage Guernsey Post. The cost of dealing with the Regulator is totally disproportionate. We estimate the cost this year to be approaching £1m. This money and effort could have been better spent to the benefit of all our customers and the taxpayers of the Bailiwick.

And finally, our drive for new sources of income through diversification by the launch of a range of Post Office savings accounts for the people of the Bailiwick has been delayed by regulatory issues.

I am pleased to report that the team at Guernsey Post has dealt well with all these issues and again delivered a profit for the people of the Bailiwick.

I am also delighted to be able to report, that for the second year in succession, and thanks to the efforts of all my colleagues, Guernsey Post has met all of its service and regulatory targets.

The Guernsey Post Business

Guernsey Post is one of the leading companies in the Channel Islands and operates a range of businesses serving both large and small customers.

Our main postal business handles about 70 million items of mail a year and has a truly global reach. Our Philatelic business has 21,000 customers world-wide and promotes the benefits of our Island all over the world. We have an extensive retail operation and our financial services business is the largest provider of foreign exchange in the Bailiwick.

continued

Gordon Steele

Mail services

Guernsey is fast becoming an important fulfilment hub for distribution around Europe as well as the UK and the resulting growth of our bulk mail customers' business has been vital to our success this year.

We are very aware of the importance of this industry to Guernsey and our obligations to serve this industry by providing the right combination of price, effectiveness, service and products.

Through efficiency gains, we have been able to absorb £1m of the Royal Mail price increases and the introduction of Pricing in Proportion has allowed many of our customers to avoid Royal Mail price increases. Our drive to reduce costs and become more efficient that started with savings of £1m last year has continued this year. We have strengthened our account management and introduced down-stream access products, offering our very large customers the option of lower costs with a slower service by introducing mail further down the Royal Mail distribution chain. And we continue uniquely to manage the critical interfaces between Guernsey Customs and UK Customs.

addressing cost increases

We were able to absorb about £1m cost increases through increased efficiencies such as changing job roles, reviewing work practices and altering the physical processing of mail on the sorting floor.

We recognise that our largest fulfilment customers are facing pressures of their own, especially if there are changes from the UK in their attitude to offshore businesses. Guernsey Post must be aware of the changes and adapt to them as they occur.

Whilst it has been a good year for our high volume fulfilment customers, there continues to be a decline in the traditional household and business mail business. For many years now there has been a slow decline in traditional mail volumes, but this year showed a sharp decline in inbound southbound mail from the UK to the Islands. A year-on-year decline across the board of 16% is unprecedented and this decline is likely to continue and affect not only us but all postal administrations throughout the developed world.

Costs from Royal Mail have risen sharply this year as they move to a more commercial pricing policy and become more demanding partners.

We were able to absorb about £1m of the increases through increased efficiencies such as changing job roles, reviewing work practices and altering the physical processing of mail on the sorting floor.

It is with great pride that, thanks to the hard work of all my colleagues, I report that, for the second year in succession we have hit every service target set by the business and the Regulator. Each year we look at how we can improve the effectiveness and efficiency of our business. Thanks to our continued good relationship with our main union, the CWU, we have consolidated the progress of the previous year and are on track to take this further.

addressing diversification

Diversification into financial services is a key part of our strategy. This is a route that has been taken successfully by other Post Offices all over the world.

We already have a branch network, a customer service and call centre function, website management capability and local people with the necessary experience and expertise.

We are determined to resolve the issues and get a range of savings products launched in the future.

Pricing in Proportion

One of the most important and historic changes we have made in the last 12 months is the introduction of "Pricing in Proportion" (PiP) which changed the historical method of charging by weight, to a new system of charging by a combination of weight and size. This has been a fundamental change for the whole system and has affected every one of our departments. This significant transformation has been handled and communicated extremely well, with the minimum of disruption to our high standards of service. This change has meant that the majority of customers will avoid very large increases in Royal Mail costs and some will see their prices fall.

Financial services and BATIF Bureau de Change

With the continuing decline in the traditional postal business, the aggressive regulatory environment and the unpredictable future of the Guernsey fulfilment industry, we must look for different income streams in the future. Diversification into financial services is a key part of that strategy. This is a route that has been taken successfully by other Post Offices all over the world.

The diversification started the year before with the acquisition of BATIF, the local foreign exchange operation. The next stage was the introduction of a range of Guernsey Post savings products offered to customers of the Bailiwick at our branches, on-line and by telephone. Customer research shows a demand for a local, trusted supplier of simple savings products and that people would welcome Guernsey Post providing those products and services.

We embarked on an assessment of our ability to meet that demand and concluded that we already had a branch network, a customer service and call centre function, website management capability and local people with the necessary experience and expertise.

BATIF BUREAU DE CHANGE AT GUERNSEY POST

However, after starting the approval process with the necessary authorities and after getting endorsement from our board and shareholder, we had to recognise that world financial events had raised regulatory concerns that meant we had to put development on hold. This is most frustrating since we were on track to launch a range of simple savings products for the people of Guernsey in this calendar year. We are determined to resolve these issues and get a range of savings products launched in the future. Meanwhile we have taken the prudent decision to write off all the development cost in this year.

continued

This year, dealing with the Regulator has been a major and disproportionate drain on the resources and finances of Guernsey Post

Regulation

This year, dealing with the Regulator has been a major and disproportionate drain on the resources and finances of Guernsey Post. The cost of dealing with the Regulator is close to £1m without any net benefit to Guernsey Post, its customers and the people of Guernsey.

Considerable management effort has been diverted into a one year price review. The unexpected proposal to reduce the reserved area to £1 and the opening of the packet market fully to competition would have such an impact on Guernsey Post that we have had no choice but to incur the expense and effort of appealing the decision in Court.

I should emphasise that Guernsey Post is not afraid of competition in the Guernsey market. That competition however has to be on a "level playing field", not allowing offshore operators with bigger economies of scale to "cream off" our high volume customers without the obligations of the USO and the price restraints under which we have to operate.

In addition to appealing the decision, we have also been very disappointed by the quality and approach of the Regulators' office, which have fallen below the minimum standards that I believe we are entitled to expect. Simple errors in price calculations have cost Guernsey Post £500,000 in lost revenue. We also received inaccurate and unfounded criticisms on matters such as overheads, health and safety training, salaries and overtime that we had to spend time correcting and addressing with our employees and stakeholders.

We very much welcome the current States' review into the scope and quality of regulation for Guernsey and we will be submitting our proposals on a more appropriate regulatory approach for the Islands.

Our responsibilities as an employer

We believe that, although we have a strong commercial focus with a duty to deliver a service to our customers and a profit to our shareholder, we also have a responsibility to be a good employer.

Guernsey Post is still recovering from a period in the company's history when little investment was made in a number of areas including training, health and safety and the maintenance of Envoy House. We spent money improving the efficiency and control of our building utilities, heating and lighting systems and as a result have already seen significant savings in costs. As a modern, environmentally friendly business and a good corporate citizen we are committed to reducing energy consumption and to an appropriate and effective waste minimisation strategy.

In November last year Guernsey Post won the top prize in the Guernsey Occupational Safety and Health Association awards following changes in working practices throughout the organisation, and the introduction of a vigorous heath and safety training programme.

addressing

regulatory issues

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The future

The next twelve months will be very testing for all at Guernsey Post. Issues that arose this year will impact us even more in the next twelve months. Actions are being taken now to execute and drive the required efficiency improvements and cost reductions to protect the future viability of the business in this difficult environment.

The biggest changes will be in our postal operation and we are in discussion with our unions to remove overtime and change the number of duties and rounds and jointly review the pension scheme. These efficiencies will be significant as well as challenging to implement.

In our budgeting we have already taken £0.5m out of our variable costs and plan operational savings in total of over £1.25m. The programme to restructure the organisation and take out further jobs is underway and will be the only way to achieve further significant savings, though redundancy payments will add to costs in the short term.

We will also be streamlining procedures and systems for business customers and philatelic customers and integrating our Payroll and HR systems to drive further efficiencies.

These will all have a positive impact on our cost base but the big driver for our future performance is, of course, mails volumes and income, particularly those of our larger customers. These are hard to predict and we must work exceptionally hard to retain them.

Dealing with the Regulator will continue to be a disproportionate drain on our resources and finances.

A big thank you

Finally I would like to take this opportunity to thank the many stakeholders who play a part in our continued success. We are grateful to the people of Guernsey, Alderney and Sark for their continued and very vocal support; to our shareholders for their continued support; to our partners; our carriers; to Post Watch and to our committed team of postal professionals and to our Non-Executive Directors.

All have played their part in making Guernsey Post what it is today - a trusted local company operating in an exceptionally difficult environment, yet still providing a valued service to the people in the Bailiwick and still delivering profits.

Gordon Steele

Gordon Steele Chief Executive
July 2010

Richard Hemans

Finance Director's Statement

The company remains strong and profitable and has a clear strategy in place to address the issues.

We had a difficult year in 2009/10 as we felt the impact of the recession, electronic substitution, unsound regulatory decisions, FRS17 pension costs and lower interest rates, but we still managed to remain profitable and the underlying performance of the company is robust. Indeed, excluding the exceptional effects of the write-off of our investment in the development of a local Savings Bank, higher FRS17 pension costs in 2009/10, and the redundancy costs incurred in 2008/9, our underlying operating profit remained stable at £1.2m.

Turnover continued to grow, but overall profits declined, cash flow was negative due to stricter credit terms from Royal Mail, and the financial position was affected by the growing deficit in the pension scheme. The company remains strong, however, and we have a clear strategy in place to address the issues, which is built on cost management and diversification.

Profit and loss account

Income rose by 5% to £45.4m in 2009/10 thanks to strong growth in priority services and UK and International bulk mail volumes. Overall income growth would have been significantly higher, but philatelic revenue fell due to its declining customer base, and southbound mail volumes dropped by 15% in response to electronic substitution and the recession. Furthermore, the average weight of bulk mail items decreased as the product mix changed and customers reduced their packaging.

Operating profit fell by 76% to £0.3m, which was a good performance as we suffered from volume declines of 16% in southbound mail, damaging regulatory decisions and the volatile impact of FRS17 pension adjustments. As noted above, southbound mail delivery services and philatelic products generated significantly lower profits. Royal Mail charges actually increased by 7% when the OUR allowed only 2.5% in the final tariff determination for 2009/10. We incurred high legal costs as we appealed against the OUR's decision to reduce our monopoly, which we believe would undermine our ability to provide the Universal Service Obligation.

We spent £861,000 on the development of a local Savings Bank to diversify the business and secure its long-term future, but we were forced to write off the entire investment because of uncertainty about the grant of a banking licence. FRS17 pension costs increased by £357,000 because the current service cost of providing pension benefits earned by active members of the scheme rose as actuarial assumptions changed and there was no gain from curtailments to the scheme that arose in 2008/9 as a result of the redundancies in that year.

The overall profit for the financial year was £0.16m, £1.97m less than in 2008/9. Interest receivable fell by 77% as interest rates went down, whilst the prior year benefited from the profit on disposal of one of the company's investment properties. There were further FRS17 pension costs relating to the net return on the pension scheme, which increased by £637,000 and resulted from the decline in the expected return on fund assets. In total, FRS17 pension costs increased by £994,000 in 2009/10.

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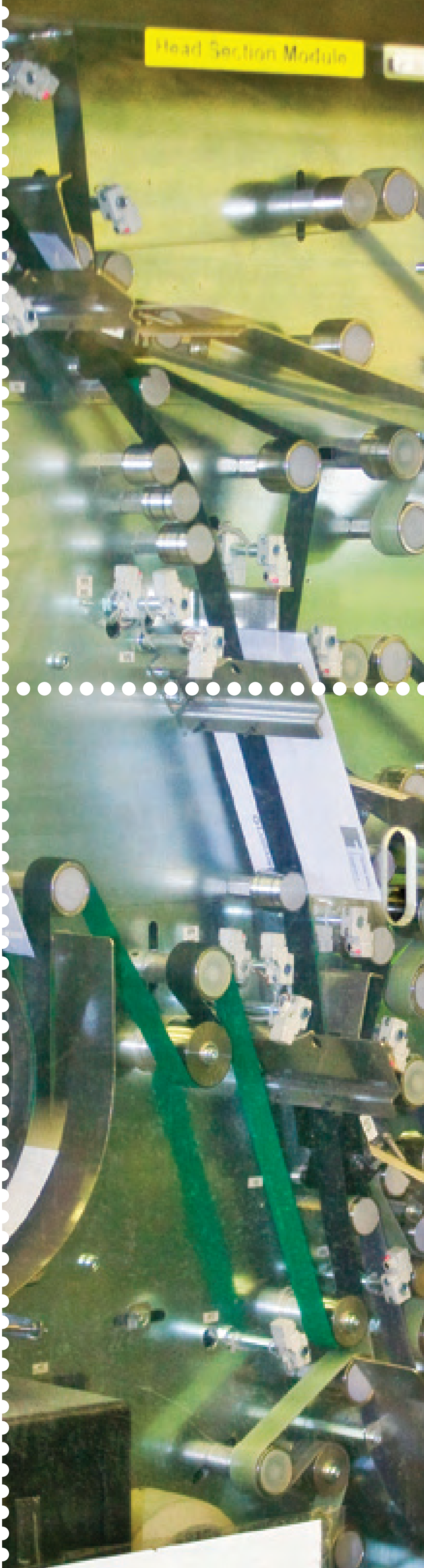
The balance sheet remains robust because the company is debt-free, has high-quality assets and enjoys strong liquidity.



Balance Sheet

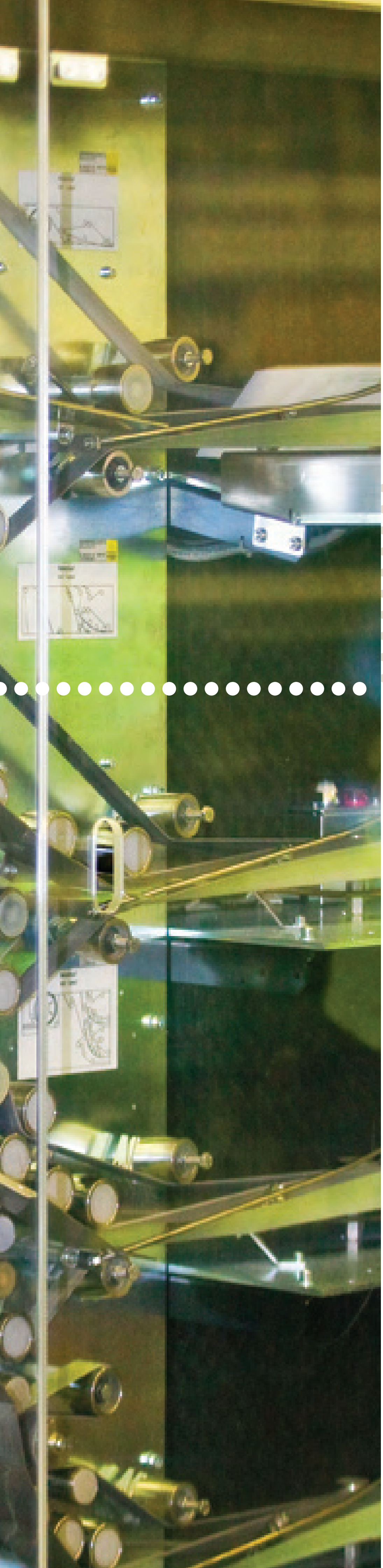
Shareholders' funds declined by £2.4m as the net deficit in our defined benefit pension scheme grew from £5.2m to £7.5m. Although asset markets recovered strongly in 2009/10 as governments pursued reflationary policies and the global economy showed signs of recovery, the fall in corporate bond yields and moderately higher inflation combined to raise the long-term liabilities of the scheme. The pension scheme deficit must be resolved quickly and we are taking steps to achieve that, in partnership with all stakeholders.

The balance sheet remains robust in spite of the pension deficit because the company is debt-free, has high-quality assets, including Envoy House, and enjoys strong liquidity with over £13m of working capital. This will ensure that we have the flexibility and strength to execute our strategy of cost management and diversification.

Cash flow statement

We consumed £6.5m of cash in 2009/10, but this was mainly the result of Royal Mail imposing stricter credit terms, and we had cash balances of nearly £14m at the year end. There was a net cash outflow from operating activities of £4.8m due to more timely invoicing by Royal Mail, lower operating profits as described above, and higher debtors arising from the exponential growth of two large customers.

Lower interest rates also contributed to the cash outflow, as did the year's capital expenditure programme, which aimed at driving operational efficiencies and improving the customer experience. This included the replacement of a significant proportion of the vehicle fleet, the completion of a new sorting office in Alderney, the redevelopment of the Mail Collection Counter area at Envoy House and the investment in new postal equipment for the introduction of Pricing in Proportion.



addressing
income growth

Income rose by 5% to £45.4m in 2009/10 thanks to strong growth in priority services and UK and International bulk mail volumes.

Outlook

In common with the entire postal industry, we are facing an uncertain future, but we have developed a strategy to confront the problems it will present. We expect to report losses in 2010/11 as traditional mail volumes continue to decline and bulk mail volume growth evens out, whilst we will incur significant restructuring costs as we seek to rationalise our cost base through a voluntary redundancy programme.

Moreover, we expect to sustain additional, material legal costs this year as we contest the OUR's decision to liberalise further the Bailiwick of Guernsey's postal market. Several customers may move to rivals during the year if the reserved area is reduced, and our financial performance will be impaired by some of the recent pricing decisions made by the OUR.

Our response this year is to reduce costs by over £1.25m and to continue the diversification of the business. We are also seeking to agree with the OUR the cost of providing the Universal Service Obligation and to remedy the flawed tariffs we are currently forced to charge some customers.

We are confident that we can secure the long-term future of the company, with the help of politicians, the shareholder, customers and regulators.

Richard Hemans Finance Director
July 2010

addressing
costs

Our response is to reduce costs by over £1.25m and to continue the diversification of the business.

addressing
environmental responsibility

At the beginning of the year the environment committee established our first company environmental policy. The purpose of the policy is to guide the company in its operations, focus the efforts of employees and stakeholders and demonstrate the importance with which the company takes its social and environmental responsibilities

A Summary of the Policy

We recognise that operating our business has an impact on the local and global environment and our objective is to reduce this impact wherever possible. We do this by ensuring that the environmental impact of what we do is considered at all times.

Six work streams were created to help the committee focus actions and deliver against the policy. The committee had an active, successful year working on each of them:

Environmental Report

Waste Management

General and recyclable waste continues to be the main focus. This involves the separation of waste into several categories at designated recycling points around Envoy House. A range of materials including, metals, paper, cardboard, polystyrene and printer cartridges are now recycled. An increasing range of waste from the vehicle fleets is also separated for treatment from vehicle parts, whole van chassis to batteries, tyres and oil.

Waste Minimisation

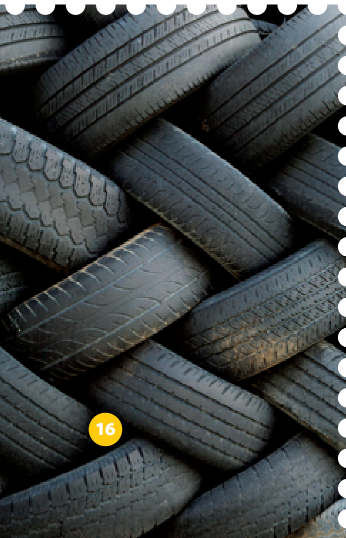
The vehicle fleet was refreshed this year with 14 new Fiat Scudo vans replacing some of the older vans in the fleet. These modern vans are 30-40% more fuel efficient than their predecessors, achieving 39 miles per gallon compared to 25 mpg from their predecessors. We will benefit financially through reduced bills and the environment will benefit through reduced fuel consumption.

Building Facilities and Controls

To reduce energy consumption, power correction equipment and modern control systems have been introduced. Additionally a lighting upgrade programme has introduced movement and daylight sensor technology. These two successful projects have reduced our energy consumption, providing a 10% reduction in electricity usage and a 16% reduction in oil consumption compared to 2008/09.

Biodiversity and Green Community Projects

At Envoy House, the north garden has been developed into a landscaped wilderness where insects can flourish. The committee also ran a "Go Green Beach Clean" day in October where nearly 50 volunteers collected 20 bags of rubbish from Vazon beach. There was also a series of "Car Free Days" which ran throughout the summer, with 100 colleagues taking part.



CSR Report

addressing
community & social responsibility

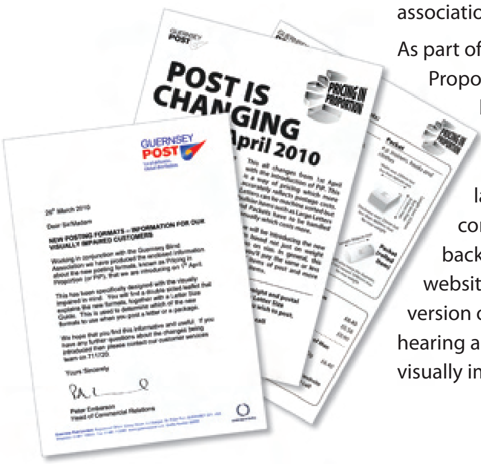
As an integral part of the island community in Guernsey and with a Bailiwick-wide network of postal branches, we are committed to the community for whom we provide postal services. From ad-hoc charity initiatives we now have a company-wide focus which builds on our colleagues' determination to contribute to their island community.

Reporting

The committee provides monthly data in graph form on waste management and facilities use for review at the company performance review. The committee is exploring introducing a system for assessing carbon footprint measurement in line with best practice among European postal companies.

Communications

The committee run regular colleague events to publicise the impact that even small personal changes can make a significant impact on the environment.


GUERNSEY POST

POST IS CHANGING
April 2010

Corporate Social Responsibility (CSR)

The company has had a busy year helping the community that it serves. In March a team of volunteers helped paint part of the Bridge Youth House, which is being used as a place for young people to meet. Two of our team undertook a charity bike ride around Guernsey raising £4,000 for four local charities and we also continued our support of Headway raising £1,800 during the year. Our Supporting Together initiative provides matched funding for our employees that want to support local good causes. Over 75 colleagues raised money for these charities and sports associations in the year.

As part of the introduction of Pricing in Proportion (PiP) we produced 300 bespoke Letter Size Guides for our visually impaired customers. These provided larger text and enhanced contrast between text and background colours. On our website we produced a subtitled version of the PiP video for the hard of hearing and text sizing options for the visually impaired.

Board Profiles

Dudley Jehan
Chairman

Born and educated in Guernsey, Dudley Jehan trained as a Meteorologist with the Air Ministry, working at Heathrow and Guernsey Airports before joining the British Antarctic Survey in 1960. During his four-year posting he was appointed Base Commander Halley and was awarded a Polar Medal by Her Majesty the Queen for outstanding contribution to science and discovery.

On returning to Guernsey he began a career in commerce, retiring in 2003 as Chief Executive of the Norman Piette Group of seven local trading companies serving the construction and home improvement sectors. He remains NP Group's Chairman today.

He was appointed the first Chairman of Guernsey Telecoms Limited, has held a number of Non-Executive Directorships and has been a non-States Member for over 20 years. He is currently a Director of the Guernsey Training Agency University Centre and is a member of the Housing Board. He joined the board of Guernsey Post in 2003 and has served as Chairman for the last four years.

Gordon Steele
Chief Executive

Gordon Steele began his career in horticulture with Fisons after attending Bradford and Reading universities. He joined Unipart and worked in purchasing and company strategy. After preparing London Electricity for competition and taking it into the gas supply business, he rescued Eastern Energy's gas supply business, launched an electricity supply operation and grew its customer base to over 5 million residential and small business accounts.

He returned to the motor trade to work for Mazda Cars Ltd before being recruited in 2001 to the UK Post Office. In his capacity as an Executive Board Director he was responsible for commercial operations, the launch into financial services, and established a new Homephone service. He was also appointed Chairman of First Rate Travel Services, the leading provider of foreign exchange in the UK.

He joined Guernsey Post as Chief Executive in February 2007. Gordon is a fellow of the RSA, and a member of the Marketing Society.

Andrew Duquemin
Non-Executive

Andrew Duquemin has a degree in Accounting and Finance and qualified as a Chartered Accountant in 1983. He has extensive experience in the listing of companies on both the London Stock Exchange and the Channel Islands Stock Exchange. He is also a Director of Corporate Consultants Limited, a Guernsey based consultancy business that has provided corporate finance and management consultancy services since 1991.

He is Chairman of Elysium Fund Management Limited, a company providing fund management and corporate finance services to a range of funds and trading companies. Elysium was formed in October 2006 to complete the management buyout of the business of Collins Stewart Fund Management Limited, a Guernsey registered company and wholly owned subsidiary of Collins Stewart Tullett plc, where Andrew was Managing Director.

Andrew sits on the boards of several local trading companies and a London-listed hedge fund company. He is also a Fellow of the Securities Institute and holds the advanced diploma in Corporate Finance.

Steve Hannon
Non-Executive

Steve Hannon has nearly 40 years experience in the postal industry. For the majority of that time he worked for Royal Mail where he managed several multi million pound, high profile national projects including the introduction of postal automation, a new rail, road and air network, rationalising and revamping London's mail centre infrastructure and planning the nationwide introduction of the single letter delivery.

He also spent a two-year period as a divisional General Manager responsible for a workforce of 13,000 people and an annual budget of £400m. During this time he covered the complete range of management functions embracing sales, customer services, finance, human resources, planning and operations.

Since leaving Royal Mail in 2003 he has undertaken consultancy work in the postal field and became a Director of Postal and Logistics Consulting Worldwide. He was appointed Chief Executive of the company in 2008.

Between July 2006 and February 2007 he undertook the role of Interim Chief Executive of Guernsey Post.

Boley Smillie
Executive

Born and raised in Guernsey, Boley Smillie joined Guernsey Post in 1991 straight from his secondary education at La Mare de Carteret School. The subsequent nineteen years have seen him gain a wide range of experience in different roles, rising through the ranks of the company. Initially employed as a clerical assistant he moved to Customer Services, then on to Logistics before being promoted to Head of Letters and Parcels in 2004. He became Operations Director in 2007 and in 2010 he was appointed an Executive Director.

During this time he has added to his hands on experience by undertaking a number of professional qualifications, including certificates in marketing and business and finance. Most recently he was awarded the certificate in Company Direction from the Institute of Directors.

Richard Hemans
Finance Director

Richard Hemans studied English Literature and French at university before returning to Guernsey in 1996 to train as a Chartered Accountant with BDO Reads. He qualified in 1999 and after travelling for six months he joined Guernsey Telecoms as the Financial Accountant. Having worked on the commercialisation of Guernsey Telecoms, he then moved to the Jacksons Group as the Financial Controller before setting up as a freelance accountant working for a variety of clients in the retail, financial services and media industries.

He wrote a weekly business column for the Guernsey Press called 'The Mercury Column' and also set up a Channel Islands business brokerage to facilitate the sale and purchase of businesses in the islands, which he sold in 2008.

In 2006, he was appointed the Finance Director of one of his clients and remained there to oversee the growth of the company and the establishment of the finance function. He joined Guernsey Post in early 2008.

Jeff Kitts
Non-Executive

A Guernseyman, Jeff Kitts is now retired from business after a successful career in the motor industry. He began his career with the British Motor Corporation and ran a highly successful group of his own companies, the Motor Vehicle Group of Companies, based in Guernsey, which included Ruette Braye Motors Ltd, Jeffrey's Service Stations Ltd and Rabeys Garage Ltd.

He has been a highly successful politician on the island, topping the poll in the Vale Parish on two occasions, and during his political career he was a member of the Advisory and Finance Committee, President of the Civil Service Board and President of the Income Tax Authority.

He has had the honour of being President of the local Motor Trades Association for a number of years. He has been a member of the Rotary Club of Guernsey for 29 years and has been President twice during that period.

Dame Mary Perkins
Non-Executive

Dame Mary Perkins DBE co-founded the Specsavers Optical Group in 1984, which introduced the joint venture concept to the optics market.

The first Specsavers Opticians opened in Bristol in 1984, and the group now has over 1,000 stores and 600 optical stores across the UK together with retail networks in Holland, Sweden, Norway, Denmark, Spain and Finland. Specsavers expanded into Australia in 2008 and New Zealand in 2009 and has also launched Specsavers Hearing Centres.

She is a member of the Board of Directors of Specsavers Optical Group, which is the market leader in UK optics, celebrated a record turnover of £1.2bn in 2007 and has been voted the Most Trusted Brand of Opticians since 2002.

She was made a Dame Commander of the British Empire in 2007, is heavily involved in Guernsey's community, is an Honorary Fellow of Cardiff University and a patron of EveryWoman. She won the Most Outstanding Woman in Business Award in 2007.

addressing our customer needs

Guernsey Post handles about 70 million items of mail a year and has a truly global reach.

2009/10 Annual Report & Financial Statements

Corporate Governance Report

Compliance

The Combined Code on Corporate Governance 2006 (the Code) outlines the main principles and provisions that companies should adopt in relation to corporate governance. This report describes Guernsey Post's compliance with the Code. Guernsey Post is committed to the development of a sustainable and profitable business that benefits all stakeholders, which includes achieving the highest standards of corporate governance for our shareholder, the States of Guernsey.

Guernsey Post has signed a Memorandum of Understanding with Treasury & Resources that sets out the rights, expectations and duties of both parties and includes the requirement to comply with best practice on corporate governance. Guernsey Post has continued to work hard on its corporate governance programme during the financial year ending 31 March 2010, and the achievements are summarised in this report.

The Board

Directors

The Board's role is to provide entrepreneurial leadership of the company within a prudent and effective framework of risk management and internal control. The Board is responsible for setting and implementing strategy, allocating the necessary human and financial resources to meet the company's objectives and monitoring the performance of management against those objectives. The Board is collectively accountable for the success of the company, sets it's values and standards and takes decisions objectively in the interests of the company, its shareholders and other stakeholders.

Non-Executive Directors help to develop and challenge the company's strategy. They evaluate the performance of management and monitor the reporting of performance. They consider the integrity of financial information and the strength of financial controls and risk management systems. They oversee executive remuneration and play the main role in the appointment, removal and succession planning for Executive Directors.

Matters referred to the Board are governed by a scheme of delegated authorities that provides the framework for the decisions to be taken by the Board, those which must be referred back to the shareholder and those which can be delegated to committees of the Board or senior management.

There were eleven Board meetings held during 2009/10. If a Board member cannot attend a meeting, he or she receives a copy of the agenda and the accompanying papers in advance of the meeting and is invited to comment on the matters to be discussed.

The names of the members of the Board committees are set out on pages 18 and 19, together with details of their backgrounds. The Board committees have authority to make decisions according to their terms of reference.

Chairman and Chief Executive

Guernsey Post has a Non-Executive Chairman and a Chief Executive Officer. There is a clear division of responsibility between the two positions, with the Chairman responsible for the running of the Board and the Chief Executive Officer responsible for the running of the company's business.

Dudley Jehan spends, on average, 3 days per week in his role as Chairman. He is also Chairman of the Norman Piette Group. The Board considers that his external directorships do not make conflicting demands on his time as Chairman.

Jeffrey Kitts is the senior independent Director and is available to talk to shareholders if they have any issues or concerns.

Boley Smillie was appointed as an Executive Director on 26 April 2010. Boley has been with Guernsey Post for nineteen years, starting with us straight from secondary school. He was appointed Operations Director in 2007 and Executive Operations Director in April 2010.

Board balance and independence

Throughout the year the Company has had a balance of independent Non-Executive Directors on the Board who ensure that no one person has disproportionate influence. Only Steve Hannon is not considered to be independent because he has previously been the Chief Executive of the Company. All the Non-Executive Directors bring with them significant commercial experience from different industries, which ensures that there is an appropriate balance of skills on the Board.

There are currently five Non-Executive Directors and three Executive Directors, which the Board believes provides a satisfactory balance.

Appointments to the Board

Recommendations for appointments to the Board are the responsibility of the Nominations Committee, which has recently revised the procedures and criteria it follows for the selection of new Board members. The appointment of Non-Executive Directors has to be ratified by the States of Guernsey.

The Nominations Committee meets quarterly to consider the balance of the Board, job descriptions and objective criteria for Board appointments and succession planning.

Information and professional development

For each scheduled Board meeting the Chairman and the Company Secretary ensure that, during the week before the meeting, the Directors receive a copy of the agenda for the meeting, Company financial, strategic and operating information and information on any other matter which is to be referred to the Board for consideration. The Directors also have access to the Company Secretary for any further information they require. In the months where there is no scheduled Board meeting, the Directors receive the prior month and cumulative Company financial and operating information.

All newly appointed Directors participate in an extensive internal induction programme that introduces the Director to the Company and includes visits to key stakeholders. The Company Secretary gives guidance on Board procedures and corporate governance. In January 2010, the Board received an update on the latest developments in corporate governance and a refresher of the key principles, an exercise that will be repeated bi-annually.

The Company Secretary, who is appointed by the Board and is also the Finance Director and an Executive Director, is responsible for ensuring compliance with Board procedures. This includes recording any concerns relating to the running of the Company or proposed actions arising there from that are expressed by a Director in a Board meeting. The Company Secretary is also secretary to the Remuneration and Nomination Committees. The Company Secretary is available to give ongoing advice to all Directors on Board procedures, corporate governance and regulatory compliance.

Performance evaluation

The Board undertakes an evaluation of its performance every three years. The last evaluation took place in October 2008, with the next one scheduled to take place some time during the year ending 31 March 2011.

Election and re-election of Directors

Guernsey Post Ltd's articles state that a Non-Executive Director should be proposed for re-election if he or she has been appointed to the Board since the date of the last AGM, or proposed for re-election if he or she has held office more than three years at the date of the notice convening the next AGM. The Board ensures that each Non-Executive Director submits himself or herself for re-election by shareholders at least every three years.

Non-Executive Directors serve the company under letters of appointment, which are generally for an initial three year term. Their appointment is also ratified by the States of Guernsey.

At the 2010 AGM, Jeff Kitts, a Non-Executive Director, is being recommended by the Board and will be proposed for re-election. Jeff has made a significant contribution as a member of the Board over the last five years and brings with him invaluable knowledge and experience of local political and commercial matters.

Remuneration

The Board recognises the importance of Executive Directors' remuneration in recruiting, retaining and motivating the individuals concerned. Executive Directors' remuneration consists of basic salary, benefits in kind, bonus and retirement benefits. Fees for the Chairman and Non-Executive Directors are determined by the States of Guernsey.

The Remuneration Committee, which is chaired by the senior independent Director, consists of two Non-Executive Directors and determines remuneration levels and specific packages appropriate for each Executive Director, taking into account the Group's annual salary negotiations. No Director is permitted to be present when his own remuneration is being discussed, or to vote on his own remuneration. The Remuneration Committee considers that the procedures in place provide a level of remuneration for the Directors which is both appropriate for the individuals concerned and in the best interests of shareholders.

Accountability and audit

Financial reporting

The intention of the Annual Report is to provide a clear assessment of the performance and prospects of Guernsey Post Ltd. The company has a comprehensive system for reporting financial results to the Board. An annual budget is prepared and presented to the Board for approval. During the year, monthly management accounts, including balance sheet, cash flow and capital expenditure reporting, are prepared with a comparison against budget and prior year. Forecasts are revised in the light of this comparison and also reviewed by the Board.

Internal control and risk management

During 2009/10 the Audit Committee and the Board approved a revised risk management policy and strategy. The risk management policy outlines Guernsey Post's risk management principles and defines the respective roles of the Board and the management team. The risk management strategy describes Guernsey Post's risk management procedures, reporting mechanisms and risk appetite. This process, managed through Audit Committee meetings, is the responsibility of all of the Group's businesses, and is overseen by the Finance Director and Head of Internal Audit.

continued

Corporate Governance Report - continued

Audit Committee meetings also include a review of the results of internal audit activity covering the financial controls and risks as well as the physical risks of all operations in the Group. The results of this process are reported to the Audit Committee by the Finance Director and the Head of Internal Audit providing an opportunity for that Committee to discuss and analyse the risks reported.

All Directors are responsible for establishing and maintaining an effective system of internal control. Whilst all elements of risk cannot be eliminated, the system aims to identify, assess, prioritise and where possible, mitigate the company's risks. Although no system of internal control can provide absolute assurance against material misstatement or loss, the company's systems are designed to provide the Board with reasonable assurance that assets are safeguarded, transactions are properly authorised and recorded and that material errors and irregularities are either prevented or detected within a timely period.

Audit committee and auditor

The Audit Committee was re-constituted in December 2008. The Board has delegated responsibility to the Audit Committee for reviewing an effective system of internal control and compliance, accurate external financial reporting, fulfilling its obligations under the law and the Code, and managing the company's relationship with the Company's external auditor. The Committee members comprise independent Non-Executive Directors. Andrew Duquemin was appointed as the chairman of the Audit Committee and the Board is satisfied that Andrew has recent and relevant financial experience to enable the duties of the Committee to be fully discharged. Dame Mary Perkins is the other member of the Audit Committee and has spent many years sitting on internal audit committees of the States of Guernsey.

The Committee approves the appointment of the Head of Internal Audit. The annual programme of internal audit assignments is reviewed and approved by the Committee. The Committee meets twice a year with representatives of the Company's external auditor, and the Chief Executive, the Finance Director and the Head of Internal Audit also attend the meetings.

Shareholder relations

The Board believes that good communication with the shareholder is a priority. There are regular meetings between the Chief Executive and the Finance Director of Guernsey Post, and the Chief Officer and Chief Accountant of Treasury & Resources. The Company presents its strategic plan to the shareholder every year.

The Chairman and senior independent Director are available to meet with the shareholder should there be unresolved matters that the shareholder believes should be brought to its attention. The Non-Executive Directors meet with the shareholder at the AGM, as well as the Executive Team. The date of the AGM is agreed with the shareholder and ten days' working notice is given. In future the AGM will be chaired by Guernsey Post, with presentations made by the Executive Team to facilitate awareness of the Company's activities and its financial performance. The shareholder will be given the opportunity to ask questions of the Board and the Chairman of each Board committee during the AGM.

Committees of the Board and main terms of reference

In addition to regular scheduled Board meetings, the Company operates through various Board committees, of which the membership and main terms of reference are set out below (except the Audit Committee which is outlined above).

Jeff Kitts and Steve Hannon are the two Non-Executive Directors who serve on the Nominations Committee. The main terms of reference of this committee are to review regularly the structure, size and composition of the Board and to make recommendations to the Board on the role and nomination of Directors for appointment to the Board, Board committees and as holders of any executive office. The Committee met four times in 2009/10 and all members of the Committee were present.

Jeff Kitts and Steve Hannon are the two Non-Executive Directors who serve on the Remuneration Committee. The main terms of reference of this committee are to determine and agree with the Board the remuneration policy for the Company's Executive Team, to approve the design of, and determine targets for, any performance related pay schemes operated by the company and to determine the policy for, and scope of, pension arrangements for each Executive Director. The Committee met four times in 2009/10 and all members of the Committee were present.

Andrew Duquemin is the only Non-Executive Director who sits on the Pensions Committee, although he is supported by the Chief Executive, Finance Director and HR Director. The main terms of reference of this committee are to review and make recommendations to the Board on the company's retirement and post retirement benefit arrangements including the control and funding of such arrangements. The Committee met twice in 2009/10, and all members of the Committee were present.

Directors' Report

The Directors present their annual report together with the financial statements for the year ended 31 March 2010.

Principal activities

The Company's principal activity is the provision of a postal service for the Bailiwick of Guernsey through a postal network and retail counter operation in accordance with the licence awarded to it by the Director General of Utility Regulation. The Company also markets its postage stamps and other philatelic products to stamp collectors worldwide.

Significant events

During the year, the Office of Utility Regulation made the decision to reduce the reserved area, which governs the value of mail over which Guernsey Post holds a monopoly, from £1.35 to £1, and to exclude all packets. The Board of Guernsey Post believes that this decision will undermine the provision of the company's Universal Service Obligation and has launched an appeal in the Royal Court.

Guernsey Post spent significant time, money and effort in the development of a domestic Savings Bank, as part of its strategy to diversify and to exploit its brand and core infrastructure. Following re-direction from The Guernsey Financial Services Commission in late 2009, the Board took the decision to suspend all activity on the project. Although diversification into financial services remains a key strategic objective for the company, the Board considers that on the basis of prudence the significant regulatory uncertainty regarding the viability of the project obliges it to write off the entire investment.

Results

The results for the year are shown in the profit and loss account on page 28.

Dividend

The Directors recommend that a dividend for the financial year of 1.22p (2009: 2.74p) per ordinary share is paid on 20 July 2010 (2009: 4th August 2009) to ordinary shareholders on the register at that date. The total value of the dividend is £273,109 (2009: £613,895). As this dividend is being recommended and will be paid after the year end no provision has been made in the financial statements.

Fixed assets

Fixed asset movements for the year are disclosed in note 8 to the financial statements.

Directors

The Directors of the Company, who served throughout the year were as follows:

D R Jehan	G R Steele
R J Hemans	J Kitts
S Hannon	A Duquemin
Dame M Perkins	

In addition, B Smillie was appointed on 26 April 2010.

No Director has an interest either beneficially or non beneficially in any shares of the Company (2009: no interest beneficially or non beneficially).

In accordance with the Articles of Association J Kitts is due to retire by rotation and being eligible offers himself for re election at the forthcoming AGM.

Statement of responsibilities

The Directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law.

The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates which are reasonable and prudent;
- state whether applicable accounting standards have been followed subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with The Companies (Guernsey) Law, 2008 and The Post Office (Guernsey) Law 1969. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

continued

Director's Report - continued

Disclosure of information to auditors

The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant information of which the Company's auditors are unaware; and each Director has taken all the steps that he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Auditors

KPMG has expressed their willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

GR Steele
Chief Executive

DR Jehan
Chairman

Independent Auditor's Report

20 New Street, St Peter Port, Guernsey GY1 4AN

Independent Auditor's report to the members of Guernsey Post Limited

We have audited the financial statements (the "financial statements") of Guernsey Post Limited for the year ended 31 March 2010 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet, the Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with section 262 of The Companies (Guernsey) Law, 2008 and Section 10(1) of The Post Office (Guernsey) Law, 1969. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditors

The Directors' responsibilities for preparing the financial statements which give a true and fair view and are in accordance with UK Accounting Standards and are in compliance with applicable Guernsey law are set out in the Statement of Directors' Responsibilities on page 25.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view, are in accordance with UK Accounting Standards and comply with The Companies (Guernsey) Law, 2008. We also report to you if, in our opinion, the company has not kept proper accounting records, or if we have not received all the information and explanations we require for our audit.

We read the other information accompanying the financial statements and consider whether it is consistent with those statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 March 2010 and of its profit for the year then ended;
- are in accordance with UK Accounting Standards; and
- comply with The Companies (Guernsey) Law, 2008 and Section 10(1) of The Post Office (Guernsey) Law,1969.

KPMG Channel Islands Limited

Chartered Accountants

8th July 2010

Profit and Loss Account

For the year ended 31 March 2010	Notes	**31 March 2010 £'000**	Restated 31 March 2009 £'000
Income		**45,392**	43,306
Expenditure		**(45,132)**	(42,241)
Operating profit	2	**260**	1,065
Other income			
Interest receivable	3	**207**	906
Rents receivable		**58**	61
Exceptional item			
Profit on disposal of investment property	6	**-**	77
Profit on ordinary activities before net return on pension scheme		**525**	2,109
Net return on pension scheme		**(290)**	347
Profit on ordinary activities before taxation		**235**	2,456
Taxation charge	4	**(73)**	(322)
Profit for the financial year		**162**	2,134

All activities derive from continuing operations

The notes on pages 32 to 50 (*28 to 47) form an integral part of these financial statements

**These page numbers refer to the original Financial Statements document approved by the auditors.*

Statement of Total Recognised Gains and Losses

For the year ended 31 March 2010	Notes	**31 March 2010 £'000**	Restated 31 March 2009 £'000
Profit for the financial year		**162**	**2,134**
Actuarial (loss)/gain recognised in the pension scheme	19	**(2,481)**	(10,920)
Dividend paid	5	**(614)**	(627)
Movement on deferred tax attributable to actuarial loss	13	**496**	2,185
Unrealised loss on revaluation of investment properties	15	**-**	(75)
Total recognised losses relating to the year		**(2,437)**	(7,303)
Prior year adjustments		**-**	(26)
Total losses recognised since last annual report and financial statements		**(2,437)**	(7,329)

All activities derive from continuing operations

The notes on pages 32 to 50 (*28 to 47) form an integral part of these financial statements

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Balance Sheet

As at 31 March 2010	Notes	**31 March 2010** **£'000**	Restated 31 March 2009 £'000
Fixed assets			
Intangible assets	7	**451**	507
Tangible assets	8	**13,008**	12,866
Investment properties	9	**875**	875
Investment in subsidiaries	10	**-**	-
		14,334	14,248
Current assets			
Stock		**265**	201
Debtors	11	**5,939**	4,997
Cash at bank and in hand	18	**13,959**	20,420
		20,163	25,618
Creditors: Amounts falling due within one year	12	**(7,130)**	(12,248)
Net current assets		**13,033**	13,370
Total Assets less current liabilities		**27,367**	27,618
Provisions for liabilities and charges	13	**(47)**	(142)
Net assets excluding pension liability		**27,320**	27,476
Net pension liability	19	**(7,481)**	(5,200)
Net assets including pension liability		**19,839**	22,276
Capital and reserves			
Share Capital	14	**22,386**	22,386
Profit and loss account	15	**(2,507)**	(70)
Revaluation reserve	15	**(40)**	(40)
Shareholders' funds	17	**19,839**	22,276

The financial statements were approved by the Board of Directors and authorised for issue on 8th July 2010.
They were signed on its behalf by:

GR Steele
Chief Executive

DR Jehan
Chairman

The notes on pages 32 to 50 (*28 to 47) form an integral part of these financial statements

**These page numbers refer to the original Financial Statements document approved by the auditors.*

Cash Flow Statement

For the year ended 31 March 2010

	Notes		**31 March 2010 £'000**		Restated 31 March 2009 £'000
Net cash (outflow) inflow from operating activities	18		**(4,829)**		1,542
Returns on investments and servicing of finance					
Interest received		**207**		906	
Rent received		**58**		61	
Net cash flow from returns on investments and servicing of finance			**265**		967
Taxation			**(219)**		(339)
Capital Expenditure					
Purchase of fixed assets		**(974)**		(603)	
Sale of investment property		**-**		452	
Sale of fixed assets		**10**		-	
Net cash outflow from capital expenditure			**(964)**		(151)
Dividend paid			**(614)**		(627)
Acquisitions and disposals					
Deferred consideration			**(100)**		-
Purchase of subsidiary undertaking			**-**		(526)
Net cash balances acquired with subsidiary undertaking			**-**		156
(Decrease)/increase in cash	18		**(6,461)**		1,022

The notes on pages 32 to 50 (*28 to 47) form an integral part of these financial statements

**These page numbers refer to the original Financial Statements document approved by the auditors.*

Notes to the Financial Statement

Year ended 31 March 2010

1. Statement of accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Company's financial statements.

Basis of preparation

These financial statements have been prepared under the historical cost convention, modified to include the revaluation of freehold investment properties, they give a true and fair view, have been prepared in accordance with United Kingdom Accounting Standards and are in compliance with The Companies (Guernsey) Law, 2008.

Income

Sales of stamps and the crediting of franking machines are accounted for on a receipt of funds basis. All other income is accounted for on an accruals basis.

Expenses

Postal operations expenses are charged as incurred. No provision is made for any charges which may be incurred in handling or delivering mail in respect of stamps and franking machine credits sold but unused at the balance sheet date.

Deferred taxation

Provision for deferred taxation is made in full on timing differences which result in an obligation at the balance sheet date to pay tax at a future date, at rates expected to apply when they crystallise based on current tax rates and laws. Deferred tax assets are only recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted. The pension scheme deficit shown in the balance sheet is net of the deferred tax asset.

Pension costs

The amount charged to the profit and loss account is the estimated regular cost of providing the benefits accrued in the year, adjusted to reflect variations from that cost. Such variations are charged or credited to the profit and loss account as a constant percentage of payroll over the estimated remaining working life of the scheme members. The scheme is funded with assets of the scheme held separately from those of the Company.

The employees' pension scheme is a defined benefit scheme. The Company applies Financial Reporting Standard 17, "Retirement Benefits" ("FRS 17"). In accordance with FRS 17 current service costs and any post service costs are charged to the profit and loss account, together with the finance costs and income for the scheme. Actuarial gains and losses are recognised in full in the period in which they occur. Pension scheme assets are measured using market values for quoted securities, the current bid price is taken as market value. Pension scheme liabilities are measured using the projected unit credit method, with an actuarial valuation being carried out each year at the balance sheet date. They are recognised in the statement of total recognised gains and losses. The retirement benefit deficit is recognised in the balance sheet.

Dividends

Dividends are accounted for when they are paid.

1. Statement of accounting policies (continued)

Stock

The cost of definitive stamps, including the non-value indicator self-stick range, is written off over the expected sales life of each type of stamp, which is unlikely to exceed three years. Commemorative stamp costs are fully written off in the year of issue.

Other stocks are valued at the lower of cost and net realisable value.

Intangible assets - goodwill

Goodwill arising on the acquisition of businesses, representing any excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired, is capitalised and written off on a straight line basis over its useful economic life, which is ten years. An impairment review is carried out every year and any necessary provision made.

Tangible fixed assets

Tangible fixed assets are stated at cost less depreciation. Depreciation is provided on all tangible fixed assets, other than freehold land, at rates calculated to write off the cost of each asset on a straight-line basis over its expected useful economic life. A full year's depreciation is charged in the year of acquisition.

	Estimated life in years	Depreciation % per annum
Freehold land	N/A	Nil
Freehold buildings	30 - 50	2 -3.3
Plant and equipment	15	6.67
Leasehold improvements	8	12.5
Furniture and fittings, office equipment and postal machinery	3 - 13	7.7 - 33.3
Transport	5	20

Following a review of the sorting machine (classified under furniture and fittings, office equipment and postal machinery) by Siemens, the original manufacturer, its remaining useful economic life has been revised from 1.5 years to 6.5 years. Siemens concluded that the machine was in excellent condition and would not need replacing until 2015. This revision has reduced its annual depreciation charge from £237,613 to £54,834.

Investment Properties

Investment properties are revalued annually. Revaluation surpluses or deficits on individual properties are transferred to the revaluation reserve. Depreciation is not provided in respect of freehold investment properties.

Investment in subsidiaries

The investment in subsidiaries is stated at cost. The subsidiaries have not been consolidated on the basis that they are dormant, and non-consolidation does not have a material impact on these financial statements.

Foreign currency

Foreign currency held in German and Dutch bank accounts is translated at the exchange rate prevailing at the balance sheet date. Gains or losses are taken to the Profit and Loss account at the time of translation. All foreign trading transactions are translated into sterling using the prevailing rate on the date of the transaction.

2. Operating profit

Operating profit is stated after charging:

	Notes	**31 March 2010 £'000**	31 March 2009 £'000
Staff costs		**12,823**	12,510
Auditors' remuneration			
Audit Fees		**35**	30
Other services		**3**	5
Amortisation of goodwill		**56**	56
Research and development of 'Savings Bank'		**861**	
Loss on disposal of fixed assets		**5**	-
Depreciation of tangible fixed assets		**817**	920

In 2009/10, Guernsey Post spent £861,000 on the research and development of a domestic Savings Bank. Following re-direction from The Guernsey Financial Services Commission in late 2009, the board took the decision to suspend all activity on the project. Although diversification into financial services remains a key strategic objective for the company, the board considers that on the basis of prudence the significant regulatory uncertainty regarding the viability of the project obliges it to write off the entire investment.

Average full time equivalent employee numbers for the period were as follows:

	31 March 2010	31 March 2009
Operational staff including postmen and women, post office counter staff and philatelic production staff	**204**	201
All other staff	**69**	67
Total	**273**	268

3. Interest receivable

	31 March 2010 £'000	31 March 2009 £'000
States Treasury	**207**	892
Other	**-**	14
	207	906

GUERNSEY POST

4. Taxation

The actual tax charge differs from he expected tax change commuted by applying the standard rate of Guernsey income tax of 20% as follows:

	Notes	31 March 2010 £'000	31 March 2009 £'000
Current taxation			
Expected tax charge		**141**	249
Current year tax charge		**141**	249
Deferred taxation			
Timing differences	13	**(68)**	73
Profit and loss taxation charge		**73**	322

From 1 January 2008, the standard rate of income tax for Guernsey companies changed. From this date, the Company is taxed at a combination of the company standard rate of 0% and the company higher rate of 20%. Therefore the tax charge included in the financial statements is based on these rates. Guernsey Post Limited apportioned the tax adjusted profits so that the appropriate amount is taxed at 20% and the new rates as applicable. This has been disclosed as "Rate differences on current tax" in the financial statements.

The Company's profits or losses from the activities subject to licence from the Office of Utility Regulation will be chargeable to tax at the 20% rate, as will rental income from Guernsey properties. For all other company activities the zero rate is applicable. The basis of assessment to Guernsey tax continues to be on actual current year basis.

	31 March 2010 £'000	31 March 2009 £'000
Operating profit	**235**	2,456
Tax at 20%	**47**	491
Effects of adjusting items:		
Timing differences	**(10)**	13
Profit on disposals of fixed assets	**-**	15
Disallowed expenses	**188**	
Rate difference on current tax	**(113)**	(251)
Net rental income and expenses	**-**	-
Adjustments for pension costs	**70**	(97)
Prior year adjustments	**(41)**	78
Current tax charge	**141**	249
Deferred tax - pension deficit	**(73)**	120
Deferred tax - timing differences	**5**	(47)
Profit and loss taxation charge	**73**	322

5. Dividends on equity shares

Amounts recognised as distribution to equity holders in the period.

	Notes	**31 March 2010 £'000**	31 March 2009 £'000
Final dividend for the year ended 31 March 2009 of 2.74p (31 March 2008 2.8p)		**614**	627

The board is proposing a final dividend for the year ended 31 March 2010 of 1.22p. The proposed final dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements.

6. Exceptional Items

The profit on disposal of investment property in the prior year related to the sale of the property known as 'Flammanville' and was shown net of sale costs and previously recognised unrealised gains.

7. Intangible assets - Goodwill

	£'000
Cost	
At 1 April 2009	563
At 31 March 2010	563
Amortisation	
At 1 April 2009	56
Charge for the year	56
At 31 March 2010	112
Net book value	
At 31 March 2009	507
At 31 March 2010	451

On 1 April 2008 the company acquired 100% of the issued share capital of BATIF Bureau de Change Ltd, for a cash consideration of £525,611 and a deferred cash consideration of £200,000. The fair value of the net assets acquired amounted to £162,431, giving rise to goodwill of £563,180. Upon acquisition, the trade and net assets of BATIF Bureau de Change Ltd were transferred to Guernsey Post Ltd and BATIF Bureau de Change Ltd changed to a dormant company.

The sale and purchase agreement specifies that the deferred cash consideration is payable in two equal installments of £100,000 on 31 July 2009 and 31 July 2010. Payment is subject to meeting pre-determined adjusted profit targets in respect of the financial years ending 31 March 2009 and 31 March 2010. On 29 June 2009 the board approved the payment of the first installment of £100,000 and agreed to provide for the second installment of £100,000. The board has not yet determined if the second installment is payable and has agreed prudently to leave the provision unadjusted at £100,000.

The carrying value of the goodwill has been reviewed during the year and the directors have determined that no impairment has taken place.

8. Tangible fixed assets

	1 April 2009 £'000	Additions £'000	Written off / disposals transfers £'000	**31 March 2010 £'000**
Cost				
Freehold land	2,505	-	-	**2,505**
Freehold buildings	8,355	248	-	**8,583**
Land and equipment	2,662	-	-	**2,662**
Leasehold improvements	357	1	-	**358**
Furniture and fittings	89	140	-	**229**
Office equipment	1,282	170	-	**1,452**
Postal machinery	2,328	118	(9)	**2,347**
Transport	797	297	(129)	**965**
	18,265	974	(138)	**19,101**

	1 April 2009 £'000	Charge for the year £'000	Written off / disposals transfers £'000	**31 March 2010 £'000**
Depreciation				
Freehold land	-	-	-	**-**
Freehold buildings	1,071	174	-	**1,245**
Plant and equipment	747	256	-	**1,003**
Leasehold improvements	45	45	-	**90**
Furniture and fittings	85	19	-	**104**
Office equipment	1,023	110	-	**1,133**
Postal machinery	1,787	91	-	**1,878**
Transport	641	122	(123)	**640**
	5,339	817	(123)	**6,093**
Net book value	12,866	-	-	**13,008**

Freehold land with a value of £2,505,000 (2009: £2,505,000) is not depreciated.

9. Investment properties

	Market Value £'000	Market Value £'000
At 1 April 2009 (2008)	**875**	1,325
Sale of Flamanville	**-**	(375)
Revaluation	**-**	(75)
At 31 March 2010 (2009)	**875**	875

Investment properties, which are all freehold, were valued on an open market existing use basis at 31 March 2010 by Swoffers Ltd. Such properties are not depreciated.

10. Investment in subsidiaries

	31 March 2010 £'000	31 March 2009 £'000
Independent Delivery Solutions Limited	-	-
BATIF Bureau de Change Limited	-	-
	-	-

Guernsey Post Limited owns all the share capital, consisting of two fully paid up £1 shares (2009: two fully paid up £1 shares) in Independent Delivery Solutions Limited. This is a dormant company and has never traded. Guernsey Post Limited pays the administration costs for this company.

On 1 April 2008 the company acquired 100% of the issued share capital of BATIF Bureau de Change Ltd, which consists of 100 fully paid up £1 shares. Upon acquisition, the trade and net assets of BATIF Bureau de Change Ltd were transferred to Guernsey Post Ltd and BATIF Bureau de Change Ltd changed to a dormant company. Guernsey Post Ltd pays the administration costs for this company.

11. Debtors

	31 March 2010	31 March 2009
	£'000	£'000
Trade debtors	**5,514**	4,795
Less Provision for bad debt	**(86)**	(76)
Other debtors	**62**	66
Prepayment and accrued income	**449**	212
	5,939	4,997

12. Creditors

	31 March 2010	31 March 2009
	£'000	£'000
Amounts falling due within one year		
Trade creditors	**5,052**	10,024
Other creditors	**1,578**	1,735
Accruals and deferred income	**398**	306
Taxation payable	**102**	180
	7,130	12,248

13. Provision for liabilities and charges

	Deferred taxation - Accelerated Capital Allowances	Deferred consideration	Sub Total	Deferred taxation - Pension deficit / surplus	Total
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
At 1 April 2009	(58)	200	**142**	(1,300)	**(1,158)**
Charged to profit and loss account	5	-	**5**	(73)	**(68)**
Charged to statement of total recognised gains and losses	-	-	-	(496)	(496)
Payment	-	(100)	**(100)**	-	**(100)**
At 31 March 2010	(53)	100	**47**	(1,869)	**(1,822)**

Deferred tax in the financial statements is therefore measured at the actual tax rates that are expected to apply to the income in the periods in which the timing differences are expected to reverse. With effect from 1 January 2008, the standard rate of income tax for Guernsey Post Limited as a Guernsey Utility Company regulated by the Office of Utility Regulation remained at 20% for regulated income and changed to 0% for non-regulated income.

The provision for liabilities and charges in the balance sheet excludes the deferred tax asset of £1.869m relating to the pension scheme deficit. The pension scheme deficit in the balance sheet is shown net of this deferred tax asset.

Deferred consideration

The provision for deferred consideration relates to the acquisition of a subsidiary undertaking. The sale and purchase agreement specifies that the deferred cash consideration is payable in two equal installments of £100,000 on 31 July 2009 and 31 July 2010. Payment is subject to meeting pre-determined adjusted profit targets in respect of the financial years ending 31 March 2009 and 31 March 2010. On 29 June 2009 the board approved the payment of the first installment of £100,000 and agreed to provide for the second installment of £100,000. The board has not yet determined if the second installment is payable and has agreed prudently to leave the provision unadjusted at £100,000.

Notes to the Financial Statement - continued

Year ended 31 March 2010

14. Share Capital

	31 March 2010 £'000	31 March 2009 £'000
Authorised		
40,000 ordinary shares of £1 each	**40,000**	40,000
Allotted called-up and fully-paid		
22,386,000 ordinary shares of £1 each	**22,386**	22,386

100% of the shares of the Company are owned beneficially by the States of Guernsey.

15. Reserves

	31 March 2010 £'000	31 March 2009 £'000
Profit and loss account		
Opening reserves at 1 April as previously stated	**(70)**	7,139
Prior Year Adjustments (please see note 16)	**-**	(26)
	(70)	7,113
Retained profit for the year	**162**	2,134
Actuarial loss for the year, net of movement in deferred tax	**(1,985)**	(8,735)
Dividends paid	**(614)**	(627)
Realised revaluation surplus	**-**	45
As at 31 March	**(2,507)**	(70)

Revaluation reserve	31 March 2010 £'000	31 March 2009 £'000
Opening reserves at 1 April (2008 as previously stated)	**(40)**	80
Unrealised Loss on revaluation of investment properties	**-**	(75)
Realised revaluation deficit	**-**	(45)
As at 31 March	**(40)**	(40)

16. Reconciliation of movement in shareholders' funds

	31 March 2010 £'000	31 March 2009 £'000
Profit for the financial year	**162**	2,134
Actuarial loss recognised in the pension scheme	**(2,481)**	(10,920)
Movement on deferred tax attributable to actuarial loss	**496**	2,185
Unrealised loss on revaluation of investment properties	**-**	(75)
Dividends paid on equity shares	**(614)**	(627)
Net reduction in to shareholders' funds	**(2,437)**	(7,303)
Opening shareholders' funds as previously stated	**22,276**	29,605
Prior year adjustments (please see note 16)	**-**	(26)
Opening shareholders' funds as restated	**22,276**	29,579
Closing shareholders' funds	**19,839**	22,276

17. Reconciliation of operating profit to net cash inflow from operating activities

	31 March 2010 £'000	31 March 2009 £'000
Operating profit	**260**	1,065
Depreciation charges	**817**	920
Amortisation	**56**	56
Net pension scheme service returns/(costs)	**79**	(278)
Increase in stock	**(64)**	(49)
Increase in debtors	**(942)**	(507)
Loss on disposal of fixed assets	**5**	-
(Decrease)/increase in creditors	**(5,040)**	335
Net cash (outflow)/inflow from operating activities	**(4,829)**	1,542

Reconciliation of net cash inflow to movement in net funds

	31 March 2010 £'000	31 March 2009 £'000
(Decrease/Increase in cash balances	**(6,461)**	1,022
Net funds at 1 April	**20,420**	19,398
Net funds at 31 March	**13,959**	20,420

18. Pension fund

Employees of the Company, where they are eligible and have chosen to join, are members of the States of Guernsey Superannuation Scheme. This is a defined benefits pension scheme funded by contributions from both employer and employees at rates which are determined periodically on the basis of actuarial advice, and which are calculated to spread the expected costs of benefits payable to employees over the period of these employees' expected service lives. The assets of the scheme are held by the States of Guernsey and the ultimate liability to pay out any pension when it is realised lies also with the States should the Company be unable to meet its funding commitments.

The scheme has established differing terms for those who joined before 1st January 2008 and those who joined after. For pre-2008 members of the scheme the employee is entitled to a retirement benefit of 1/80th of final salary for each year of membership of the scheme up to a maximum of 45 years on reaching 65 years of age. Additionally a lump-sum payment is paid based on 3/80th of final salary for each year of employment. For members who joined after 1 January 2008 the benefit entitlement accrues at 1/60th of final salary but no lump sum automatically accrues. A lump sum is achievable by commuting part of the pension entitlement. The take up of this commutation into lump sum cannot be known but an assumption based on a prudent forecast has been adopted. This assumes that a 75% commutation will be requested by members. The scheme is a funded scheme. The most recent actuarial update of scheme assets and the present value of the defined benefit obligation was carried out at 31 March 2010 by Mrs D Simon, Fellow of the Institute of Actuaries.

18. Pension fund - continued

The valuation used for FRS17 disclosures has been based on a full assessment of the liabilities of the Fund. The present values of the defined benefit obligation, the related current service cost and any past service costs (if applicable) were measured using the projected unit method.

The amounts recognised in the Balance Sheet are as follows

	31 March 2010	31 March 2009
	£'000	£'000
Fair value of Fund Assets	**25,126**	18,615
Present value of funded obligations	**(34,476)**	(25,115)
Deficit in scheme	**(9,350)**	(6,500)
Related deferred tax asset	**1,869**	1,300
Net pension liability	**(7,481)**	(5,200)
Amounts in the Balance Sheet		
Assets	**-**	-
Liabilities	**(7,481)**	(5,200)
Net pension liability	**(7,481)**	(5,200)

The amounts recognised in the Profit and Loss account are as follows:

	31 March 2010	31 March 2009
	£'000	£'000
Current service cost	**1,148**	874
Interest on obligation	**1,515**	1,335
Expected return on Fund assets	**(1,225)**	(1,681)
Past service cost	**-**	31
(Gains) on curtailments	**-**	(196)
Expenses recognised in the Profit and Loss	**1,438**	362
Actual return on Fund assets	**5,351**	(5,346)

18. Pension fund - continued

	31 March 2010 £'000	31 March 2009 £'000
Opening defined benefit obligation	**25,115**	19,490
Service cost	**1,148**	874
Interest cost	**1,514**	1,335
Contribution by members	**466**	462
Actuarial Losses	**6,607**	3,893
Past service costs	**-**	31
Gains on curtailments	**-**	(196)
Benefits paid	**(374)**	(774)
Closing defined benefit obligation	**34,476**	25,115

18. Pension fund - continued

Changes in the fair value of Fund assets are as follows:

	31 March 2010	31 March 2009
	£'000	£'000
Opening fair value of Fund assets	**18,615**	23,285
Expected return	**1,225**	1,681
Actuarial Gains/(Losses)	**4,126**	(7,027)
Contributions by employer	**1,069**	987
Contributions by member	**465**	463
Benefits paid	**(374)**	(774)
Closing fair value of Fund assets	**25,126**	18,615

Analysis of amounts recognised in statement of total recognised gains and losses	**31 March 2010**	31 March 2009
	£	£
Total Actuarial Losses	**(2,481)**	(10,920)
Total Loss in statement of total recognised gains and losses	**(2,481)**	(10,920)
Cumulative amount of Loss recognised in statement of total recognised gains and losses	**(6,375)**	(3,894)

Guernsey Post expects to contribute £1,129,795 to the Fund from 1 April 2010 to 31 March 2011.

The major categories of Fund assets as a percentage of the total Fund assets are as follows:

	31 March 2010	31 March 2009
	%	%
Equities	**60**	66
Gilts	**12**	7
Corporate Bonds	**15**	5
Index Linked Bonds	**-**	14
Other Assets	**11**	8
Property	**2**	0

Principal actuarial assumptions at the Balance Sheet date
(expressed as weighted averages (where applicable)

	31 March 2010	31 March 2009
	% pa	% pa
Discount rate	**5.5**	6.1
Expected return on Fund assets at 31March (for following year)	**6.5**	6.5
Rate of increase in pensionable salaries	**5.15**	4.55
Rate of increase in deferred pensions	**3.9**	3.3
Rate of increase in pensions in payment	**3.9**	3.3

18. Pension fund - continued

Mortality Assumptions

The mortality assumptions are based on standard mortality tables which allow for future mortality improvements. The assumptions are that a member aged 65 will live on average until age 86 if they are male and until age 88 if female. For a member currently aged 45 the assumptions are that if they attain age 65 they will live on average until age 88 if they are male and until age 89 if female.

Description of the basis used to determine the expected rate of return on the assets

The Employer adopts a building block approach in determining the expected rate of return on the Fund's assets. Historic markets are studied and assets with high volatility are assumed to generate higher returns consistent with widely accepted capital market principles.

Each different asset class is given a different expected rate of return. The overall rate of return is then derived by aggregating the expected return for each asset class over the actual asset allocation for the Fund at the disclosure year end.

Amounts for the current and previous are as follows:

	31 March 2010	31 March 2009	31 March 2008	31 March 2007	31 March 2006
	£'000	£'000	£'000	£'000	£'000
Defined benefit obligation	34,476	25,115	19,490	22,882	22,814
Fund Assets	25,126	18,615	23,285	22,213	20,321
(Deficit)/surplus	(9,350)	(6,500)	3,795	(669)	(2,493)
Experience Gains/(Losses) on Fund assets	4,126	(7,0270	(1,712)	(571)	1,346
Experience Gains/(Losses) Fund liabilities	1,335	(658)	831	1,530	(538)

The Fund assets for the years ended 31 March 2006 and 31 March 2007 have not been restated to bid value (i.e. they are mid market value).

19. Financial commitments

Capital commitments are as follows:

	Guernsey Post Ltd 31 March 2010 £'000	Guernsey Post Ltd 31 March 2009 £'000
Freehold buildings	**10**	243
Leasehold improvements	**19**	-
	29	243

Annual commitments under non-cancellable operating leases are as follows:

Guernsey Post Ltd	**31 March 2010 Land and buildings £'000**	31 March 2009 Land and buildings £'000
Expiry date		
- within 1 year	**10**	6
- between two and five years	**-**	-
- after five years	**71**	65
	81	71

Leases of land and buildings are typically subject to rent reviews at specified intervals and provide for the lessee to pay all insurance, maintenance and repair costs.

20. Statement of control

The Company is wholly owned and ultimately controlled by the States of Guernsey.

21. Related party transactions

S Hannon, a Non-Executive Director, is also a director of Postal & Logistics Consulting Worldwide Limited (PLCWW). Guernsey Post received consultancy and management services from PLCWW during the year, transacted on an arm's length basis. The charges incurred by the Company payable to PLCWW during the year ended 31 March 2010 were £82,750 (2009: £nil). The balance outstanding at 31 March 2010 was £nil (2009:£nil).

Mrs M Perkins, a Non-Executive Director, is also a director of Specsavers Optical Group Limited (SOGL). Guernsey Post received income from SOGL during the year for postal services, transacted on an arm's length basis. The income received by the Company from SOGL during the year ended 31 March 2010 was £160,730 (2009: £nil). The balance outstanding at 31 March 2010 was £16,072 (2009:£nil).

Through the normal course of its business activity the Company both purchases and provides services to its shareholder or entities under the controlling influence of the shareholder body. These entities include States Trading Companies, companies whose equity is wholly owned by the States, States Departments and Boards operated by the States. All such transactions have been on an arm's length basis. The total value of the sales for the year ended 31 March 2010 amount to 1.2% of total turnover (2009: 1.3%). The total value of purchases for the year amounted to 1.2% of total expenses (2009: 1.5%).

The States also provides, through its treasury department, management of the Company's liquid funds in excess of short term needs. At 31 March 2010 the balance held was £12,842,783 (2009:£19,535,429).

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